JAY SEXTON

The Funded Loan and the *Alabama* Claims

"Half the public bodies in America want to borrow English capital, and more than half the enterprises," *The Economist* observed in 1872, "and nothing forbids this but the unsettled Alabama difficulty."[1] Few historians have followed *The Economist*'s lead in connecting the apparently distinct *Alabama* claims with American efforts to attract foreign investment after the Civil War. Scholars have traditionally focused on how national pride, Canadian independence, and the personalities of American and British statesmen contributed to and hindered efforts to settle the Anglo-American dispute regarding British compensation to the United States for damages inflicted by the *Alabama* and other British-built Confederate cruisers during the Civil War. The work of Allan Nevins and Adrian Cook, to name but two historians, has delineated the contours of the *Alabama* debate and explored how the dispute related to the broader geopolitical strategies of Britain and the United States in the nineteenth century.[2]

There is, however, another story to be told in relation to the *Alabama* claims. This story involves the interlocking relationship between finance and diplomacy. More specifically, it shall be seen that the United States' need for cheap foreign capital to refinance its massive national debt at a lower rate of interest influenced its relations with Britain in the years after the Civil War. Indeed, the Treasury's desire to market low-interest bonds abroad was so intertwined with the diplomatic attempts to resolve the *Alabama* controversy that it is impossible to view either in isolation. Not only did financial considerations shape U.S. policy, but financial leaders, motivated by obvious self-interest, were key players in the diplomacy of 1869–1872. These financiers operated on both sides of the Atlantic and were instrumental in bringing about a resolution to the *Alabama* dispute. The benefits of the conciliatory policy pushed by the financial lobby became clear in 1871 and 1873, when the United States Treasury, working in connection with the consortium of elite London bankers who had helped resolve the *Alabama* claims, placed low-interest bonds in Europe to fund the debt contracted during the Civil War.

1. *The Economist*, 18 May 1872, 605.
2. The standard works on the *Alabama* claims remain Adrian Cook, *The* Alabama *Claims: American Politics and Anglo-American Relations, 1865–1872* (Ithaca, NY, 1975); and Allan Nevins, *Hamilton Fish: The Inner History of the Grant Administration* (New York, 1939).

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With all of the attention given to the political and social aspects of Reconstruction, it is often forgotten that the nation faced an equally daunting financial crisis in the years after the Civil War. In October 1865, Secretary of the Treasury Hugh McCulloch announced that the national debt stood at $2.8 billion. The previous high mark for the debt prior to the Civil War years occurred in 1815, when war with Britain placed the nation $127 million in the red. Of immediate concern to McCulloch in 1865 was that half of the Treasury's outstanding issues were to mature in three years or less.[3] Moreover, the overwhelming majority of the debt had been contracted at high interest rates in the popular wartime issues of the seven–thirties (three-year notes bearing 7.3 percent) and five-twenties (6-percent bonds callable between five and twenty years). With high war taxes already the source of political controversy, it made clear fiscal and political sense for the Treasury to take advantage of the Union victory by refinancing its debt at a lower rate of interest. "Taking a five per cent loan instead of a six per cent loan," Civil War financier and Treasury agent Jay Cooke advised McCulloch in December 1865, "would in effect surrender to the government one-sixth of the annual interest in lieu of taxation."[4]

Looking to execute such a refunding operation abroad also made clear financial sense. With 90 percent of the national debt held at home, it was feared that American bondholders would be reluctant to exchange their seven–thirties and five-twenties for lower-yielding securities. In contrast, British consols (government bonds) bore a mere 3-percent interest. Consequently, it was hoped that European capitalists—particularly those in Britain—might be tempted by a relatively high-yielding U.S. loan, but one that was more secure than the wartime issues, which had met with little success abroad. The high standing and historic connections of European banks to the United States were also incentives for arranging a foreign loan. Though the war years had witnessed an explosion in the size and number of investment banks and brokerage firms on Wall Street, the world's leading banks remained in Europe, principally in London. There were no better houses than the Rothschilds or Baring Brothers to help the United States fund its $2.8 billion debt at a lower rate of interest.

Placing a new loan abroad had another, more important pecuniary advantage to the United States: injecting gold into the nation's monetary system. Following the suspension of specie payments in December 1861, the Treasury printed some $450 million in "greenbacks"—paper notes not tied to the price of gold—to help finance the war. Even when implemented during the financial exigencies of the war years, the creation of the greenbacks met with much opposition from those who believed that paper money would lead to ruinous infla-

3. Henrietta Larson, *Jay Cooke* (Cambridge, MA, 1936), 208.

4. Quoted in Ellis Paxson Oberholtzer, *Jay Cooke*, vol. 2 (Philadelphia, 1907), 9. See also August Belmont to N. M. Rothschild & Sons, 12 May 65, T56/210, Rothschild Archive, London (hereafter RA); Larson, *Jay Cooke*, 208.

tion, not to mention violating the sanctity of gold. Thus, with the war over and government expenditure rapidly on the decline, Republican leaders and Northeastern financial interests (who, as creditors, stood to gain from a tight currency) pressed for the retirement of the greenbacks and a resumption of specie payments. There were two general ways that this could happen: currency contraction or an increase in the gold supply, both of which sought to bring devalued greenbacks back to par with gold. Congress, under intense pressure from McCulloch, committed the nation to the first of these options in an 1866 law that called for $10 million in greenbacks to be refunded in six months, with an option for an additional $4 million each month thereafter.[5] Currency contraction, however, was a painful process to debtors and small farmers, and it was not long before opportunistic Democrats and genuinely aggrieved westerners were applying political pressure to end McCulloch's policy (which led to the repeal of the contraction policy in early 1868). A foreign influx of gold could thus mitigate the effects of contraction whilst helping to bring greenbacks back to par. Though a foreign loan was a short-term solution—as the loan plus interest eventually would have to be returned to Europe—it could clearly assist the Treasury and the Republican party in their quest to enact a quick return of specie payments.[6]

For a variety of reasons, plans to arrange a foreign loan in the years immediately following the Civil War never came to fruition. It appears that McCulloch himself did not support giving priority to a new loan to the foreign capitalists who had rejected loan offers during the Civil War, when financiers on Wall Street had stood by the nation throughout its trial. McCulloch preferred the debt to be a "home" one, agreeing with Cooke that "[I]f it is held by our own people, there is no annual loss of wealth from the collection and payment of interest."[7] McCulloch's views were undoubtedly influenced by the cool reaction of financiers across the Atlantic to a possible low-interest U.S. loan. The London financial panic of 1866, combined with the perception that the sectional and political struggles in the United States were far from resolved, did not encourage European financiers to broker a new loan to a nation already billions of dollars in debt. The Democratic party platform of 1868, which called for the five-twenty bonds to be redeemed in greenbacks, also frightened off potential investors in Europe.[8] In the eyes of European capitalists, plans to repay

5. Margaret Meyers, *A Financial History of the United States* (New York, 1970), 174–96; Robert Sharkey, *Money, Class, and Party: An Economic Study of Civil War and Reconstruction* (Baltimore, 1959), 56–80.

6. For this motive for a foreign loan, see George Boutwell, *Reminiscences of Sixty Years in Public Affairs*, vol. 2 (New York, 1902), 144.

7. Quoted in Mira Wilkins, *The History of Foreign Investment in the United States to 1914* (Cambridge, MA, 1989), 110.

8. The Democratic platform called for debt repayment in "lawful money," which at the time included greenbacks, and advocated "one currency for the government and the people, the laborer and the officeholder . . . the producer and the bondholder." For more, see Belmont to N. M. Rothschild & Sons, 7 February 1868, T57/90, RA; Sharkey, *Money*,

the debt in depreciated paper were commensurate with an outright repudiation of the U.S. government's obligations to its creditors. In a letter to *The Nation*, John Stuart Mill maintained that redeeming the U.S. debt in greenbacks "would . . . be one of the heaviest blows that could be given to the reputation of popular governments, and to the morality and civilization of the human race."[9]

Fortunately for those in the United States who sought to attract foreign investment, Ulysses S. Grant and the Republican party offered a hard-money alternative in the election of 1868. The Republican platform was unequivocally pro-gold, declaring that "[T]he national honor requires the payment of the public indebtedness in the uttermost good faith to all creditors at home and abroad."[10] Indeed, U.S. bonds rallied on the London Stock Exchange as it became clear that Grant would prevail in the upcoming elections and that a business-friendly administration would protect the interests of financiers in and out of the United States.[11] Upon his election, Grant did not disappoint the financial community. "The payment of the debt, principal and interest, as well as the return to a specie basis," the newly elected president declared, "must be provided for."[12] Such words were music to the ears of European financiers searching for a profitable and safe outlet for their capital. The conservative Rothschilds were so confident in Grant's intentions that they ordered their American agent, August Belmont, to purchase $100,000 in five-twenties even before Grant took office.[13] This proved a wise investment, as the administration's first act was to sign into the law on 18 March 1869 the Public Credit Act, which pledged the Treasury to refund its obligations in coin and called for a quick resumption of specie payments. The United States' financial standing overseas and the interest of European capitalists in American government securities immediately improved. *The Economist* pronounced that among nations only Britain was a more reliable debtor than the United States.[14] A congressional report in 1869 estimated that foreign investment had rapidly increased to the unprecedented figure of $1.5 billion, two-thirds of which had been placed in federal bonds.[15]

Class, and Party, 120–21; Irving Katz, *August Belmont: A Political Biography* (New York, 1968), 173.

9. *The Nation* 7 (15 October 1868): 308–9. See also *Bankers' Magazine* 28 (April 1868): 385–88.

10. Quoted in Sharkey, *Money, Class, and Party*, 122.

11. See *The Economist*, 17 October 1868, 1198; Baring Brothers to Thomas W. Ward, 17 October 1868, microfilm, Baring Papers, Library of Congress, Washington, DC.

12. Quoted in Boutwell, *Reminiscences of Sixty Years in Public Affairs*, 2:228.

13. Belmont to N. M. Rothschild & Sons, 26 February 1869, T58/3, RA.

14. *The Economist*, 30 October 1869, 1277–78. See also *The Economist*, 16 January 1869, 69; *The Economist*, 27 February 1869, 244.

15. U.S. House of Representatives, *Report of the Special Commissioner of the Revenue upon the Industry, Trade, Commerce, &c. of the United States for the Year 1869*, ex. doc. no. 27, 41st Cong., 2nd sess. This report is reproduced in full in Mira Wilkins, ed., *Foreign Investments in the United States: Department of Commerce and Department of Treasury Estimates* (New York, 1977).

The new Secretary of the Treasury, former Massachusetts governor George Boutwell, sought to take advantage of the popularity of U.S. securities overseas. Though a radical Republican and a ringleader of the effort to impeach Andrew Johnson, Boutwell was a financial conservative who, in the words of Hans Trefousse, was "fanatically devoted to reducing the national debt and establishing a hard currency."[16] Not surprisingly, Boutwell advocated issuing a low-interest loan in Europe to achieve both of these ends. Even before being named Secretary of the Treasury, Boutwell had led a congressional effort in 1868 to make new issues of U.S. bonds "payable, principal and interest, at the option of the takers, either in the United States, or in London, Paris, or Frankfort." Though this effort failed when Congress could not agree on the particulars of a bill to refund the debt, Boutwell remained committed to brokering a foreign loan when he accepted Grant's invitation to the cabinet in early 1869.[17] With the improvement of United States' financial standing abroad, it appeared that such an operation might succeed.

But just as the financial and monetary roadblocks to placing a refunding loan abroad were removed, a more threatening diplomatic one appeared when relations with Britain soured in the spring of 1869. Tense Anglo-American relations were not altogether new: the two nations had been at odds since the war years when several prominent Britons—including Chancellor of the Exchequer William Gladstone—sympathized with the South and the British government considered intervening in the war in the autumn of 1862. To add injury to insult, Northerners believed that pro-Confederate sympathy in Britain had led the Palmerston ministry to violate its neutrality laws by permitting Southern agents to purchase warships from British shipbuilders. The blind eye turned towards Confederate naval purchasing during the war allowed several warships, most notably the famed *Alabama*, to be constructed in British shipyards before escaping to be armed in neutral waters. American pressure and threats eventually forced British leaders to more vigilantly enforce their neutrality laws and led to the detainment of several vessels under construction in Britain in the autumn of 1863. By then, however, the damage had already been done. A largely British-built fleet of Confederate raiders, headed by the *Alabama* and the *Florida*, roamed the seas in search of vulnerable U.S. merchant and whaling vessels. Hundreds of American ships were sunk or captured during the war, and a further 750 were transferred to foreign flags or mothballed due to the threat and to increasing insurance premiums.[18]

The acrimony of the *Alabama* controversy became apparent soon after the war. An initial attempt to resolve the dispute foundered when Foreign Secretary Lord John Russell refused to allow a proposed joint commission to con-

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16. Hans Trefousse, *The Radical Republicans* (New York, 1969), 448.

17. See Boutwell, *Reminiscences of Sixty Years in Public Affairs*, 2:141, 183. See also *The Economist*, 30 October 1869, 1277–78.

18. Cook, *The* Alabama *Claims*, 15.

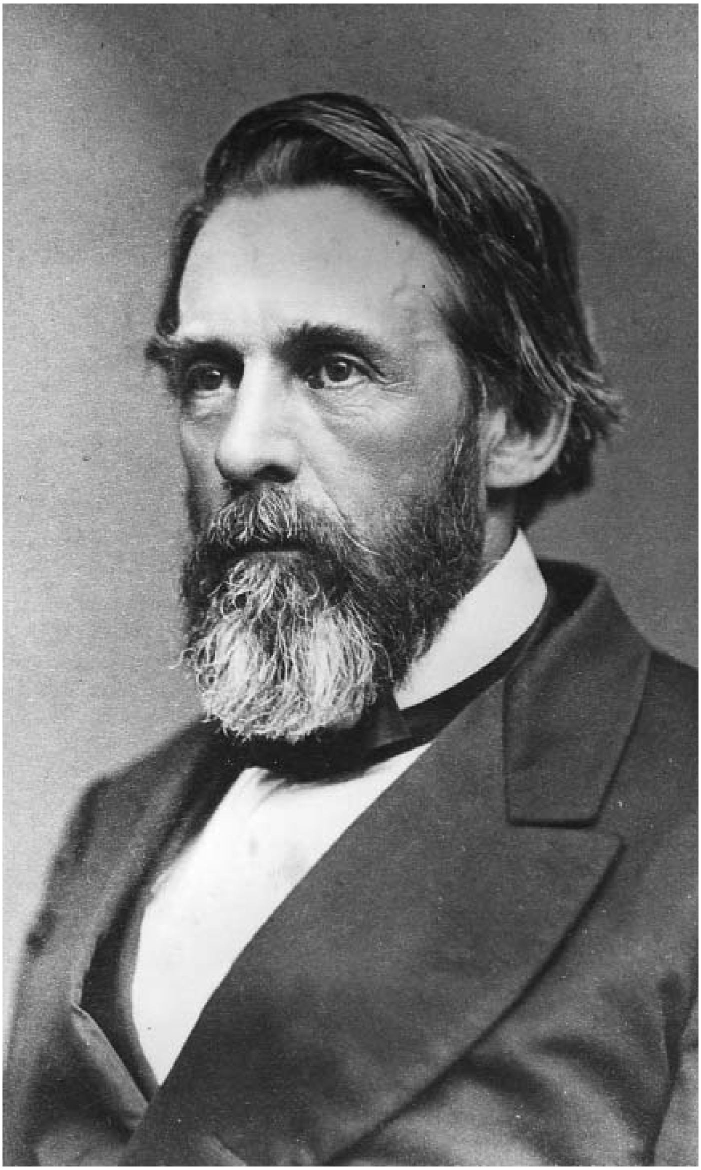

Figure 1: Secretary of the Treasury George Boutwell sought to resolve the *Alabama* dispute in order to facilitate his plans to issue low-interest bonds on the London Stock Exchange. Photo is courtesy of the American Antiquarian Society.

sider whether or not the British government was liable for the depredations of British-built Confederate cruisers. Russell's Tory successor at the Foreign Office, Lord Stanley, proved more conciliatory in 1866–1867 when he conceded that the *Alabama* claims could be put before a joint commission. The only conditions that Stanley placed upon such a commission were that both nations should agree upon the issues to be discussed before it sat and that Britain's proclamation of neutrality should not be put before the arbitrators. The latter point, however, was unacceptable to Secretary of State William Seward. Issued in May 1861, the proclamation of neutrality conferred belligerent rights to both the North and South and governed British actions during the war. Northerners argued that Britain had issued the proclamation precipitately and believed that it had encouraged the South to continue its struggle by giving the impression that British diplomatic recognition of the Confederacy was forthcoming. As Seward declared, the proclamation was "unnecessary, ungracious, unfriendly, irritating, and injurious."[19] Only by putting the proclamation before the proposed commission, Seward argued, could the full extent of British transgressions during the war be understood. But to Stanley and other British statesmen, it was inappropriate to question in front of an international commission Britain's right to confer the status of belligerency on a group of rebels in a civil war. To do so would compromise British sovereignty and honor and would establish a dangerous precedent.

Thus, by early 1867, a solution to the *Alabama* controversy appeared as far away as it had been in 1865. It is clear, as historians have pointed out, that the United States missed an opportunity to put the issue to rest when Seward rejected Stanley's proposal.[20] But it should not be forgotten that there was little incentive for Seward to compromise in 1867. In contrast to the latter years of the dispute, there was no pressing financial inducement to resolve the *Alabama* controversy as the Treasury had no plans for placing a loan abroad. On the contrary, there were motives to keeping the dispute unsettled. It is likely that Seward expected the British to yield even more in the future. More importantly, by leaving the dispute unresolved, Seward left open the possibility of British territorial cession as compensation for the *Alabama* claims. The architect of the purchase of Alaska and the failed scheme to acquire the Danish West Indies, Seward was an expansionist who had long advocated the annexation of Canada. Indeed, in 1866 he dispatched propagandists to north of the border to whip up support for Canadian entry into the United States.[21] As Charles Francis Adams observed, "Mr. Seward's thirst for more land seems insatiable."[22]

19. Quoted in Cook, *The* Alabama *Claims*, 41.

20. For this view, see Cook, *The* Alabama *Claims*, 42.

21. For more on Canadian independence/annexation and the *Alabama* claims, see Doris Dashew, "The Story of an Illusion: The Plan to Trade the *Alabama* Claims for Canada," *Civil War History* 15 (December 1969): 332–48.

22. Quoted in Cook, *The* Alabama *Claims*, 41. For more on Seward's Canadian desires during this time, see Martin Duberman, *Charles Francis Adams, 1807–1886* (Boston, 1961), 329–30.

If Seward's intention was to get territory out of the *Alabama* dispute, he had changed his mind by late 1868 when he proposed the establishment of a joint commission to settle the outstanding claims between the two nations. Significantly, Seward dropped his previous demand that the proposed commission consider the recognition of Confederate belligerency in May 1861. Adams' successor at the U.S. Legation in London, Reverdy Johnson, and Lord Stanley quickly drafted the details for the creation of the commission that was signed in January 1869 by Johnson and Lord Clarendon (who regained his post as Foreign Secretary after the Liberal victory in the general election of 1868). The ill-fated Johnson-Clarendon agreement called for the establishment of a joint Anglo-American claims convention, much like the one held in London in 1853–1855, which would hear all claims by American citizens against the British government and by British subjects against the U.S. government. These claims would be submitted to a five-person commission consisting of two Americans, two Britons, and one arbitrator.

Though a fair means of resolving international claims, the Johnson-Clarendon agreement fatally erred in not granting special consideration to the *Alabama* issue. Under the settlement, grievances of British subjects against the U.S. government would be treated equally with claims of Americans against the British government regarding the *Alabama*. Particularly infuriating to Americans was the prospect of British holders of defaulted Confederate bonds and owners of captured blockade-runners seeking compensation from the federal government. Moreover, the Johnson-Clarendon treaty offered no redress of national honor to the United States. Under the terms of the agreement, Britain was under no obligation to admit wrongdoing or apologize for the *Alabama* affair and was bound only to compensate individual ship-owners affected by British-built Confederate cruisers, as opposed to compensating the United States as a whole. Thus, the Johnson-Clarendon agreement reduced a diplomatic issue involving violations of neutrality laws into a series of individual claims. Finally, the apparatus of Johnson-Clarendon was insufficient. In the likely case of a split vote between the American and British representatives, an arbitrator would be chosen by lot to break the tie. Though a last-minute amendment to the treaty provided for arbitration on certain issues (primarily the *Alabama* claims) by a foreign head of state, the gambling element of the agreement was, as one historian put it, "ridiculous."[23] The lame-duck Johnson administration pocketed the treaty and left ratification for incoming President Grant and his secretary of state, New Yorker Hamilton Fish.

While Grant and Fish formulated their foreign policy and assessed the Johnson-Clarendon agreement, the Senate, led by Foreign Relations chairman Charles Sumner, took action. In a notorious speech delivered on 13 April 1869, Sumner vociferously denounced the Johnson-Clarendon agreement for failing to remove "the massive grievance which under our country suffered for years."

23. For the shortcomings of the Johnson-Clarendon agreement, see Cook, *The* Alabama *Claims*, 69–76; David Donald, *Charles Sumner and the Rights of Man* (New York, 1970), 366.

Sumner argued that the treaty failed to adequately provide the nation with redress for the wrongs committed by Britain during the war. The Massachusetts senator scoffed at the prospect of Britain not having to apologize for her alleged pro-Confederate actions and at the possibility of British subjects who had purchased Confederate bonds or run the blockade receiving compensation from American taxpayers.

Sumner's opposition to Johnson-Clarendon, however, did not end there. The Senate veteran reasserted the old accusation that Britain's proclamation of neutrality had been conferred illegally and that without it, "[N]o rebel ship could have been built in England . . . nor could any munitions of war have been furnished" to the Confederacy. In addition to providing compensation to those ship-owners directly affected by the *Alabama*, Sumner argued that any future resolution to the *Alabama* claims should also include redress for so-called national or indirect damages. Such damages included increased insurance premiums, the transfer of much of the American merchant marine to foreign flags, and the cost of pursuing Confederate vessels during the war. Most amazingly, Sumner maintained that British material and moral support given to the South enabled the Confederacy to continue its struggle and that "through British intervention, the war was doubled in duration." Since the Confederacy would have collapsed without British support in the summer 1863, Sumner contended, Britain might be "justly liable for the additional expenditure to which our country is doomed." In other words, fair compensation for the *Alabama* claims might be for Britain to assume the U.S. debt contracted after the battle of Gettysburg—or some $2 billion! Such harsh demands only increased the calls of expansionists for the British cession of Canada as compensation for the *Alabama* claims. Indeed, Sumner's biographer has suggested that, as with Seward's rejection of the Stanley offer in 1867, the desire to annex Canada lay behind his speech.[24] Whatever his intentions, Sumner's speech led the Senate to reject the Johnson-Clarendon agreement by a vote of 54 to 1 and placed Anglo-American relations in their tensest state since the war.[25]

Unfortunately for Secretary of the Treasury Boutwell, the consequences of Sumner's speech were not limited to a cooling of diplomatic relations with Britain. United States bonds, recently bolstered by the Public Credit Act, dropped by more than 10 percent on the London Stock Exchange in the weeks following the Senate's rejection of the Johnson-Clarendon treaty.[26] "Mr. Sumner's speech," Barings wrote to one of their New York correspondents,

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24. Donald, *Sumner and the Rights of Man*, 391.

25. For Sumner's speech, see Charles Sumner, *The* Alabama *Claims: Speech Against the Ratification of the Johnson-Clarendon Treaty* (London, 1869). See also Donald, *Sumner and the Rights of Man*, 374–86; Cook, *The* Alabama *Claims*, 74–98; Nevins, *Hamilton Fish*, 152.

26. U.S. five-twenties were quoted at 85 5/8 on 10 April 1869 (*The Economist*, 415); Barings wrote on 8 May 1869 that five-twenties were as low as 76½. See Baring Brothers to Duncan, Sherman & Co., 8 May 1869, Baring Papers.

"doubtless had something to do with this."[27] A few days later, *The Nation* reported that "[M]illions after millions of five-twenties were thrown upon the [European] market in headlong haste."[28] Sumner's speech had such a prejudicial effect upon Anglo-American financial relations that when the Bank of England raised its discount rate in May 1869, many on Wall Street ascribed the action "to the unfriendly feeling produced by the *Alabama* controversy."[29] Though it is unlikely that Sumner's speech dictated the actions of the Bank of England, it is clear that it precluded Boutwell from placing a low-interest loan in Europe. Barings advised their American agent that "[I]f it is the policy of the Secretary of the Treasury to increase the currency of the Bonds in Europe, the Washington Cabinet will naturally be reluctant to provoke a serious discussion" with Britain along the lines of Sumner's speech.[30] The connection between finance and diplomacy that would do much to determine the fate of the *Alabama* claims had been made apparent. As *The Nation* put it, "We are, in short, put upon our good behavior towards other countries. . . . [I]t is no doubt unpleasant to be thus obliged to count in advance the cost of every shift in our foreign policy."[31]

Given the financial repercussions of Sumner's speech, it is not surprising that it was a group of elite international bankers who made the first attempts to reopen talks on the *Alabama* dispute. With stocks tumbling, wary capitalists withdrawing their investments, and merchants being denied short-term credit, financial leaders on both sides of the Atlantic quickly recognized the economic imperative of reconciling Anglo-American differences and ending the *Alabama* controversy. Just days after Sumner's speech, Belmont privately advised Lionel de Rothschild, who was also a highly influential Liberal member of Parliament, to appeal to Foreign Secretary Lord Clarendon to deploy a "special ambassador" to Washington with authority to settle the *Alabama* issue. Belmont reminded Rothschild of how Lord Ashburton's mission to the U.S. in 1842 "had a most salutary effect and settled the knotty question of the North Eastern boundary." The Ashburton example was an appropriate one for Belmont to invoke, as it illustrated the ability of banker-diplomats to resolve international disputes that had befuddled the State Department and Foreign Office. The 1842 treaty, it should be recalled, was successfully negotiated by Lord Ashburton, the former head of Baring Brothers, and Secretary of State Daniel Webster, a legal and financial consultant who had long been on Barings' payroll.[32]

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27. Baring Brothers to Duncan, Sherman & Co., 8 May 1869, Baring Papers. *The Economist* (1 May 1869, 501) declared that Sumner's speech "caused an almost uninterrupted decline in prices."

28. *The Nation* 9 (12 August 1869): 124.

29. *The Nation* 8 (3 June 1869): 428.

30. Baring Brothers to Ward, 14 August 1869, Baring Papers.

31. *The Nation* 9 (12 August 1869): 124.

32. Belmont to N. M. Rothschild & Sons, 16 April 1869, T58/8, RA. See also Belmont to N. M. Rothschild & Sons, 28 April 1869, RA.

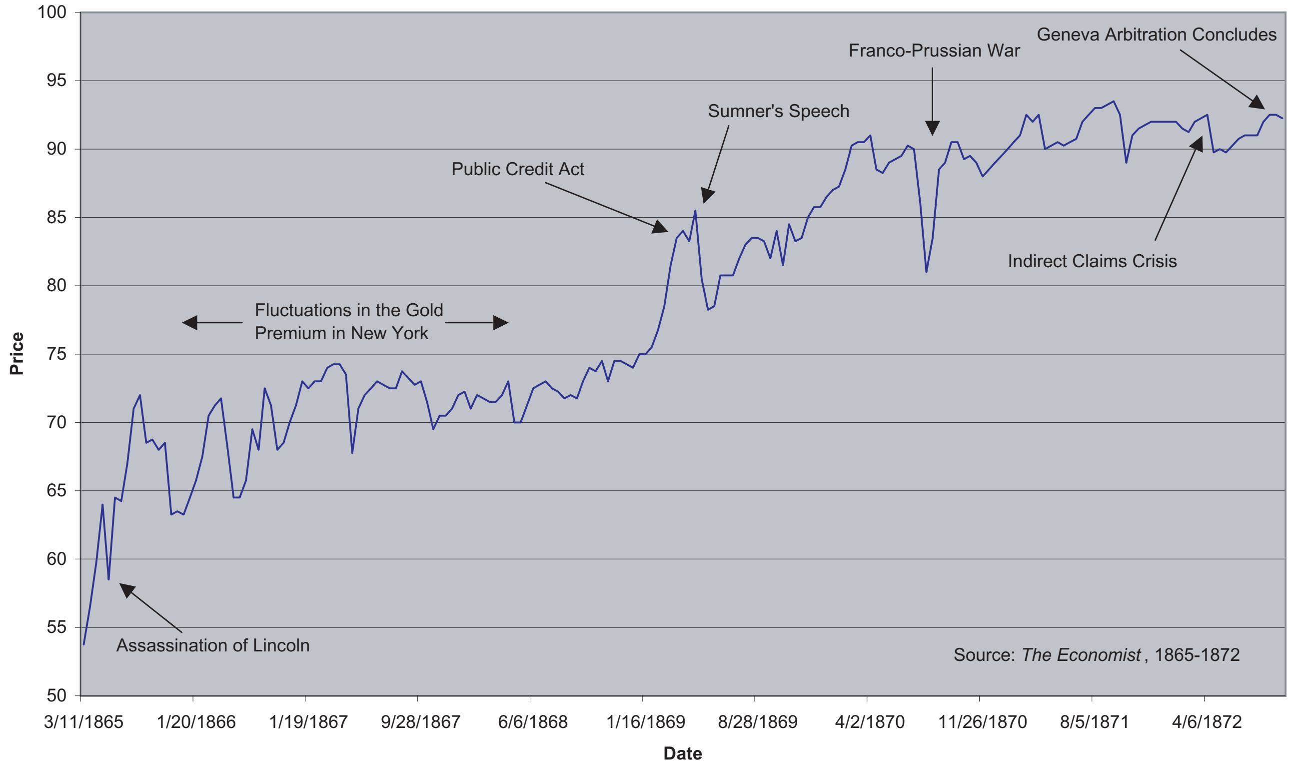

Figure 2: U.S. 5–20 Bonds on the London Stock Exchange.

Canadian financier Sir John Rose put a similar plan to Secretary of State Fish in the summer of 1869. A partner in the London branch of Levi Morton's Wall Street bank (Morton, Bliss & Co.), Rose was an experienced politician and diplomat who, in addition to serving as the first finance minister in Canada, had been the British representative on the 1863 commission that settled claims of British companies south of the forty-ninth parallel after the Oregon Treaty. Like Belmont, Rose cited the Ashburton mission in his discussions with Fish and suggested possible British envoys who might best settle the current crisis.[33] Though Fish was receptive to Rose's overtures, it was deemed unpropitious to proceed with such a plan while Anglo-American relations remained tense so soon after Sumner's speech. Fish encouraged Rose, however, to present his plan to British leaders upon his return to London.[34]

Though Rose's proposal may have been premature, the international setting a year later was more conducive to the settlement of the *Alabama* claims. On the British side of the Atlantic, the whole dispute was beginning to become more than just a diplomatic nuisance. The precedent of lax neutrality laws terrified British statesmen as Franco-Prussian rivalry threatened to involve Britain in a European war. Indeed, after the outbreak of the Franco-Prussian War in July 1870 and Russia's attempt to militarize the Black Sea that November, Under-Secretary in the Foreign Office Lord Tenterden called it "a matter of national exigency" to settle the *Alabama* dispute.[35] American diplomats did not waste the opportunity to push Britain into a favorable settlement. Fish bluntly informed British Minister to Washington Sir Edward Thornton that "[I]f England became involved [in the Franco-Prussian War], it would be impossible to prevent retaliation, and the ocean would swarm with 'Alabamas.'"[36] In their attempt to avoid entanglement in the Franco-Prussian War and an ocean swarming with *Alabama*s, British leaders amended their nebulous neutrality laws in August 1870. Fish interpreted this action, which American statesmen had long called for, as "itself a practical admission of the inefficiency of their former enactments & of their fault in not having provided the means of discharging their international obligations towards us."[37] The turmoil in Europe thus made British leaders willing to make concessions to the United States and led them to acknowledge—albeit indirectly—that they might bear some responsibility for

33. The names mentioned were the Duke of Argyll, John Bright, Lord Granville, and Sir Henry Bulwer. See Hamilton Fish, diary, 11 July 1869, Hamilton Fish Papers, Library of Congress, Washington, DC.

34. For Rose's meeting with Fish, see Fish diary, 11 July 1869, Fish Papers; Nevins, *Hamilton Fish*, 213; J. C. Bancroft Davis, *Mr. Fish and the* Alabama *Claims* (Boston, 1893), 44; Cook, *The* Alabama *Claims*, 118.

35. Confidential memorandum by Lord Tenterden, "Relations with the United States," 21 November 1870, Foreign Office (hereafter FO) 5/1331, Public Records Office, Kew, England (hereafter PRO).

36. Fish diary, 24 March 1870, Fish Papers.

37. Ibid., 11 September 1870.

the destruction caused by the *Alabama* during the Civil War. “I do not pretend in this state of things on the continent of Europe,” Foreign Secretary Lord Granville disclosed to Thornton in October 1870, “that I should not like to make all things snug on your side of the water.”[38]

For their part, American leaders also became more willing to compromise. Grant removed John Lothrop Motley, an ally of Sumner’s who shared his extreme views on the *Alabama* issue, from his post as U.S. minister to London in June 1870. Though this was done to exact revenge on Sumner for his opposition to the administration’s scheme to annex Santo Domingo, the appointment of Robert Schneck, a railroad executive with British connections, portended conciliatory Anglo-American relations. More importantly, American statesmen dropped their demand for British withdrawal from Canada—which, it was hoped, would open the door to annexation—as a prerequisite for talks on the *Alabama* claims. In this regard, Fish and Boutwell, who doubted both the desire of Canadians to join the United States and the Treasury’s ability to finance forcible annexation, checked Grant’s appetite for Canada in the cabinet. As Boutwell stated to Grant, the *Alabama* claims “cannot properly be connected with the question of Canadian Independence & it is important to have them settled before the next Presidential Elections.”[39] In another instance, Grant brazenly declared in a cabinet meeting that, “were it not for our debt,” he hoped “Congress would declare war with Gt. Britain . . . take Canada, & wipe out her commerce.” Boutwell and Fish shook their heads before the Treasury Secretary advised the President to “wait until the funding bill has passed.”[40]

It was the passage of this funding bill that firmly committed the Grant administration to resolving the *Alabama* dispute. As we have seen, the Treasury had sought to restructure its massive debt at a lower rate of interest, preferably through a new loan placed in Europe, since the end of the Civil War. Boutwell had openly advocated such a plan for several years and Fish had been informed that Baring Brothers thought favorably of a 4.5-percent loan in Britain as early as October 1869.[41] Without congressional approval, however, the Treasury lacked the authority to place a new loan abroad. This obstacle was removed on 14 July 1870 when Congress passed the “Act for Funding the Public Debt.” Drafted by Boutwell, this bill authorized a “funded loan” to be placed both at

38. Quoted in Maureen Robson, “The *Alabama* Claims and the Anglo-American Reconciliation, 1865–1871,” *Canadian Historical Review* 42 (March 1961): 1–22. See also C. P. Stacey, “Britain’s Withdrawal from North America, 1864–1871,” *Canadian Historical Review* 36 (September 1955): 185–98.

39. Fish diary, 30 November 1870, Fish Papers.

40. Ibid., 22 March 1870. For more on the end of U.S. hopes to annex Canada, see Robson, “The *Alabama* Claims and the Anglo-American Reconciliation, 1865–1871,” and Dashew, “The Story of an Illusion,” 345.

41. William Henry Aspinwall to Fish, 11 October 1869, Fish Papers. See also Baring Brothers to Ward, 27 November 1869, Baring Papers.

home and abroad, to convert $1.5 billion of 6-percent five-twenties into varying amounts of 5-, 4.5-, and, ultimately, 4-percent Treasury bonds.[42]

Boutwell's hope of placing the new loan abroad, however, lasted exactly twenty-four hours, as the Franco-Prussian War erupted the day after the passage of the bill. "If the war continues any length of time," *The Economist* stated, "the prospect of funding the American debt at a much lower rate of interest, with two such borrowers as France and Germany out of the market, must be postponed for a pretty long period."[43] Indeed, quotations in London of the old 6-percent U.S. bonds dropped from 90 to 81 after the war broke out, due to German investors liquidating their American holdings.[44] "No one borrows," a European correspondent informed Fish; "United States Bonds fell to 25 per cent below par. Other American securities were wholly unsaleable, and European securities were from 20 to 50 per cent lower than ever before."[45] With Germans dumping their 6-percents, it was certain that they would not be interested in a new 5-percent loan. The only alternative to funding the entire debt at home, Boutwell soon recognized, was to place part of the new loan in Britain. But with the *Alabama* dispute unresolved, British financiers did little to encourage the Secretary of the Treasury to make such an attempt. A prominent London banker bluntly informed Boutwell "that the unsettled condition of the Alabama Claims interfered with the funding of the Public Debt."[46] Thus, before the funded loan could be placed on the London Stock Exchange, the *Alabama* dispute needed to be resolved.

Canadian banking magnate Sir John Rose was certainly aware of the United States' dilemma and sought to use it to entice British leaders to take the initiative to resolve the *Alabama* dispute. In a confidential memorandum circulated to the British cabinet in November 1870, Rose maintained that the United States' desire for foreign capital necessitated a resolution to the *Alabama* affair and made the Grant administration likely to back off of the extreme demands made by Sumner the previous year. "The United States' Government," Rose argued,

> are most anxious to effect a conversion of their debt in Europe into one bearing a lower rate of interest; and they are sensible of the reluctance of capitalists to consider it until the American demands are put in a shape for amicable adjustment. The reduction of the national burdens by means of

42. For the text of the funded bill, see *The Economist*, 16 July 1870, 893. See also Boutwell, *Reminiscences of Sixty Years in Public Affairs*, 2:137–43, 183. The act called for U.S.$1.5 billion of sixes to be converted into $200 million in fives (payable after ten years), $300 million in four and a halfs (payable after fifteen years), and $1 billion in fours (payable in thirty years).

43. *The Economist*, 23 July 1870, 914.

44. *The Economist*, 23 July 1870, 914. See also *The Nation* 11 (11 August 1870): 84–85; Belmont to N. M. Rothschild & Sons, 20 July 1870, T58/68, RA.

45. Webster to Fish, 28 February 1871, Fish Papers.

46. Fish diary, 9 December 1870, Fish Papers. The banker, it turns out, was Sir John Rose.

> such a conversion has been a leading idea with the President and his party; on the accomplishment of which they in a great measure base their hopes of re-election in 1872.[47]

Rose reiterated his earlier proposal that, with both nations now desiring a settlement, Britain should send "some intermediate agency" to Washington. This unofficial envoy would not resolve the controversy, but would arrange for the creation of a joint commission, comprised of an equal number of American and British representatives, to settle all outstanding diplomatic disputes between the two nations. Such disagreements included not only the *Alabama* claims, but also the disputed fisheries off the Canadian shore, the status of San Juan Island in the Puget Sound, navigation rights on the St. Lawrence River, and new international copyright agreements.

The idea of a wide-ranging joint commission to settle all Anglo-American disputes was not new. Lord Tenterden had made a similar recommendation in a cabinet memorandum a few days earlier and Fish had expressed his desire to "settle all the question pending between the countries at once" in a September 1870 meeting with Thornton.[48] With both sides in general agreement, the Gladstone ministry opted to act on Rose's proposal and deploy a special minister to Washington to arrange for the establishment of a joint commission. The belief that the United States' need for cheap foreign capital would make American statesmen likely to compromise was the primary factor that led the British cabinet to take this first step. As Granville stated in his endorsement of Rose's plan to Gladstone, "[A] pet object with Grant is to reduce the rate of interest from six to four and a half per cent and . . . [Grant] is aware this cannot be done without a fair settlement of old scores with England."[49]

While deciding whom to send on this delicate mission, it struck Granville "that Sir John Rose might be usefully employed in the way indicated by his confidential instructions."[50] The rest of the cabinet agreed and the Canadian financier received instructions for his negotiations with the United States on 19 December 1870.[51] There is little doubt that Rose was the appropriate person to send on the mission to Washington. He was well acquainted with the nuances of the *Alabama* dispute, he was trusted by leaders on both sides of the Atlantic, and he could use his Canadian connections to pose as a third-party arbitrator.

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47. Confidential memorandum, Sir John Rose, 5 December 1870, FO 5/1331, PRO.

48. For Tenterden, see confidential memorandum by Lord Tenterden, "Relations with the United States," 21 November 70, FO 5/1331, PRO. For Fish, see Fish diary, 26 September 1870, Fish Papers; Cook, *The* Alabama *Claims*, 140; Nevins, *Hamilton Fish*, 426.

49. Lord Granville to William Gladstone, 22 November 1870, Papers of William Gladstone, Vol. 82, Add. Ms. 44, 167, British Library, London.

50. Granville to Sir Edward Thornton, 17 December 1870, FO 362/1, Granville Papers, PRO.

51. Granville to Rose, 19 December 1870, FO 5/1298. Tenterden urged Granville not to give Rose too much freedom of action on his mission. See, Tenterden to Granville, 19 December 1870, FO 5/1298, PRO.

Indeed, Rose himself had prepared the groundwork for a special mission to the United States, not only through his memo to the British cabinet, but also by confidentially informing Fish and Grant the previous month that "[T]he British Cabinet is disposed to enter upon a negotiation."[52]

It is surprising, however, that Gladstone and Granville were apparently oblivious to the secondary object that Rose pursued during his diplomatic mission to Washington: securing the appointment for his bank of brokering the U.S. funded loan in Europe. Serving as the financial agent for a government loan was the most lucrative and respected function of nineteenth-century investment banks. It should come as little surprise, therefore, that Rose and his New York partner, Levi Morton, lobbied to secure the contract from the Grant administration once it became known that the Treasury sought to place part of the loan abroad. Thus, Rose clearly had his eyes fixed on more than resolving the *Alabama* dispute during his secret mission to the United States. Indeed, on Rose's very first day in Washington, he met with Boutwell, with whom he agreed "that some means might now be devised of settling all points of the controversy" in order to facilitate the Treasury's funding plans abroad.[53]

Though shocking to contemporary observers, it is unlikely that this overlapping of personal financial interests with diplomacy detrimentally influenced Rose's negotiations with Fish in January 1871. Rose certainly did not compromise Britain's interests in his desire to resolve the dispute in order to secure his appointment for brokering the funded loan. Negotiations with Fish concerning the establishment of the proposed joint commission were far from smooth, often lasting as late as three in the morning.[54] Sumner's power and influence in the Senate made Fish reluctant to yield to Britain's positions as articulated by Rose. Despite Fish's intransigence, however, Rose got the upper hand in the negotiations. The Canadian financier refused to yield to Fish's demands that Britain admit wrongdoing in the *Alabama* affair before the commission met, and he forced the Secretary of State to accept his ultimatum that Britain would not accept "any foregone condition for payment of money" to compensate the United States.[55] Nor did Rose flinch when Sumner absurdly demanded that "as a condition precedent to any negotiation, Great Britain must withdraw her flag from this hemisphere."[56] If anything, Rose's connections with the Treasury helped lay the foundation for a settlement by reminding American statesmen of the financial necessity of putting the *Alabama* controversy to rest. Moreover, Rose's partner Morton helped his cause by outlining the benefits of resolving the *Alabama* dispute to his friend Grant, whose support was obviously crucial

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52. Fish diary, 9 December 1870, Fish Papers.
53. Rose to Granville, 10 January 1871, FO 5/1298, PRO.
54. Ibid.; Davis, *Mr. Fish and the* Alabama *Claims*, 59.
55. Rose to Granville, 27 January 1871, FO 5/1298, PRO; Fish diary, 30 January 1871, Fish Papers.
56. Rose to Granville, 21 January 1871, FO 5/1298, PRO.

to the success of Rose's mission.[57] The United States' need for cheap capital to refinance its debt necessitated diplomatic compromise, and Rose and Morton lost no opportunity to make this point to the Grant administration.[58]

Fish's concessions in the negotiations with Rose illustrate how much the Grant administration was willing to yield in order to open the financial markets of London to a U.S. loan. Less than two years after the leading Republican in the Senate had demanded enormous reparation payments from Britain, if not the cession of Canada, a Republican administration consented to Britain's position that Canadian independence was out of the question and its demand that the joint commission commence its deliberations without Britain admitting liability for the depredations of the *Alabama*. Though Fish and Grant could rightly argue that these concessions did not compromise national interests or honor (as it was by now clear that Canadians wanted nothing of annexation and that it was likely that the commission would hold Britain accountable in some degree for the *Alabama* claims), Sumner and his allies predictably cried foul and opposed the creation of the joint commission under the terms agreed to by Fish and Rose. Eager to begin its refunding operation and aware of the economic fallout that was certain to follow another failed attempt to resolve the *Alabama* dispute, the Grant cabinet agreed to the plan, despite the disapproval of discontented Republicans.[59] Each nation quickly appointed their five-member negotiating team and on 24 February 1871 the joint commission met for the first time.

After two months of intense but gentlemanly negotiations, the American and British representatives signed the Treaty of Washington, a wide-ranging accord that is often viewed as the beginning of the Anglo-American rapprochement that flowered into the two countries' special relationship in the twentieth century. Amongst other things, the treaty resolved the fishery dispute, opened binational waterways to both Canada and the United States, and—most significantly—established stricter neutrality laws to prevent another *Alabama* dispute from separating the two English-speaking powers in the future.[60] The treaty, however, did not resolve the *Alabama* issue itself. The commission opted to refer the controversy to international arbitration after each nation was given the opportunity to compile and compose a case to present before a tribunal in Geneva the following year. Despite its failure to formally resolve the *Alabama* dispute, the Treaty of Washington marked a new beginning in Anglo-American relations. As Allan Nevins asserts, "[T]he treaty was an event of

57. Rose to Granville, 10 January 1871, FO 5/1298, PRO.

58. For the details of the Rose-Fish negotiations, see Robert Carlton Clark, "The Diplomatic Mission of Sir John Rose, 1871," *Pacific Quarterly Review* 27 (July 1936): 227–42. See also Cook, *The* Alabama *Claims*, 163.

59. For Sumner's views, see Donald, *Charles Sumner and the Rights of Man*, 484–88.

60. For the text of the Treaty of Washington, see William Malloy, *Treaties, Conventions, International Acts, Protocols, and Agreements between the United States of America and Other Powers*, vol. 1 (Washington, DC, 1910), 700–716.

cardinal importance in the history of the relations of the two English-speaking Powers."[61]

The diplomatic implications of the Treaty of Washington, of course, would not become fully apparent for decades. In the short term, however, the accord bore immediate financial benefits for the United States. The two nations' commitment to resolve their differences through peaceful negotiation restored the confidence of cautious banks and investors, who had feared that the *Alabama* dispute would lead to war. The renewed interest of British capitalists in U.S. securities that followed an easing of Anglo-American tensions led the Grant administration to make preparations for issuing the low-interest funded loan abroad. Indeed, on the very day that the cabinet accepted Rose's proposal for the creation of the joint commission that would ultimately draft the Treaty of Washington, Boutwell announced his intentions to go ahead with a foreign loan. It is certain that Boutwell's "reasons to believe he will be able to do so" originated from his discussions with Rose and Morton.[62] Rose was so confident that his London firm would be chosen to broker the funded issue that he declined Granville's offer of a place on the British high commission in Washington so that he could devote his full attention to "bringing out the new United States' Loan in London," which was tentatively set for 6 March 1871.[63]

If Rose thought that he had secured the Treasury's appointment to bring out the loan, he must have been sorely disappointed when Boutwell decided to offer the agency for the first $200 million, 5-percent funded loan to "everybody."[64] Specifically, the Treasury jointly offered the loan to five London banks: the British houses of Baring Brothers and the Rothschilds and three lesser-known American firms in London—Morton, Rose & Co., Jay Cooke & Co., and J. S. Morgan & Co. (formerly George Peabody & Co. and soon to become J. P. Morgan & Co.). It is not surprising that Boutwell did this considering that long-time Republican benefactor Cooke actively lobbied for the appointment, while the established and reputable Barings and Rothschilds expressed interest in the Treasury's plan. After all, Morton, Rose & Co. was a relative unknown in international finance, having just established a London house in 1869 (the New York parent firm of Morton, Bliss & Co. had itself only been founded in 1863). Though the Barings and Rothschilds were not accustomed to sharing the profits of a government loan with each other, let alone with lesser-known American banks, both houses recognized the significance of Boutwell's offer. With the Treasury deciding to issue only $200 million, $1.3 billion in future funded loans remained to be placed on the market and it was doubtful that a future agency

61. Nevins, *Hamilton Fish*, 493.

62. Fish diary, 24 January 1871, Fish Papers. See also Nevins, *Hamilton Fish*, 442.

63. Rose to Granville, 9 February 1871, FO 5/1298, PRO. Rose was also concerned that his "connection with a banking firm which has interests in the United States might be urged in opposition to the propriety of my selection."

64. Oberholtzer, *Jay Cooke*, 2:270.

would be granted to a bank who had been unwilling to participate in the first issue.

The number of banks brokering the funded loan, however, soon proved problematic. Despite the newly operational transatlantic telegraph, Boutwell struggled to coordinate the actions of five banks in London from his office in Washington. Before the loan had even been issued to the public, the Rothschilds admitted that the operation "takes up more of our time and trouble than we are likely to be compensated for."[65] Of more concern was the possibility that the loan would meet with little success on a London market flooded with railroad issues offering up to 8-percent and a promising new French loan.[66] The Rothschilds confessed "that in recommending the Exchange of the old 6% for the new 5% bonds to our friends we are at a loss to find an argument in its favour."[67] The loan did not get off to a promising start when the Rothschilds received only one application for $10,000 in the four days after the announcement of the loan on 10 March 1871.[68]

The whole operation began to unravel when Boutwell, anxious to quickly procure subscribers to the loan, extended invitations to several more banks to assist in its placement. Already reluctant to share profits with four competitors, the Barings and Rothschilds were appalled when the Treasury asked American financier Henry Clews, whom they viewed as an "unfit association," to join the banking consortium.[69] The final straw occurred when Boutwell considered offering $10 million of the loan to a Russian bank of which the Rothschilds had never heard.[70] On 21 March 1871, the Rothschilds backed out of the scheme and Baring Brothers followed soon after.[71] Having lost the support of the world's two largest banks, the first funded loan appeared to be on the verge of collapse. By late April, the loan was a complete failure in Europe and had attracted only $53 million in total. This partial success was in itself deceiving, as the majority of the buyers had been national banks in the United States, which were required by law to hold federal bonds as reserves.[72]

65. N. M. Rothschild & Sons to Belmont, 2 March 1871, RA.

66. For the competition between the U.S. and French loans, see *The Economist*, 18 March 1871, 311.

67. N. M. Rothschild & Sons to Belmont, 28 February and 10 March 1871, RA. See also *The Nation* 11 (27 October 1870): 273–74.

68. N. M. Rothschild & Sons to Belmont, 14 March 1871, RA.

69. Thomas Baring to Ward, 4 March 1871, Baring Papers. See also N. M. Rothschild & Sons to Belmont, 7 March 1871, RA.

70. N. M. Rothschild & Sons to Belmont, 23 May 1871, RA.

71. N. M. Rothschild & Sons to Belmont, 21 March 1871, RA; Baring Brothers to Ward, 8 April 71, Baring Papers.

72. For the initial failure of the loan, see *The Economist*, 22 April 1871, 480. "The loan goes very slow," Belmont reported, "the whole subscription, thus far, only amounting to 20 millions. . . . [T]he refusal of yourselves and Barings to join will probably cause the arrangement to fall through." Belmont to N. M. Rothschild & Sons, 24 March 1871, T58/96, RA. See also Belmont to N. M. Rothschild & Sons, 31 March 1871, T58/97, RA.

The early failure of the funded loan threatened to tarnish the financial standing of the United States as well as to yield unfavorable political consequences. Without a successful low-interest loan in hand, the Grant administration would have little to show for the compromises made during the *Alabama* talks the previous winter and would invite renewed attacks from the Sumnerian quarter of Congress. Consequently, Boutwell took two significant steps in the summer of 1871 to save the funded loan after the withdrawal of the Rothschilds and Barings. First, the Treasury Secretary arranged for interest payments on the new bonds to be payable in gold in London. Having interest payable only in the United States was an obvious disincentive to foreign investors, who had to pay a fee to a transnational bank to arrange for the conversion of their coupons into gold. Interest payable in Europe would provide the motive for holders of the old 6-percent five-twenties to convert their bonds into the new 5-percents, which had not existed when the loan was first issued. Indeed, the Rothschilds and other British capitalists had repeatedly urged Boutwell to do this before issuing the loan back in March.[73]

Making interest on government bonds payable abroad, however, was a politically sensitive issue. The Senate Finance Committee and several prominent congressmen opposed this policy due to the belief that such a plan was a "national degradation" that would drain the nation's gold supply only to enrich foreign financiers.[74] This powerful lobby had blocked two previous attempts led by Boutwell, in 1868 and 1870, to make U.S. bonds payable overseas. Thus, Boutwell had to finesse his way around this opposition by making interest on the new bonds payable in checks of the U.S. Treasurer, which did not require congressional approval. Though not specie, Treasurer's checks were accepted by banks around the world, where they stood "as good as gold." "My object," Boutwell later recalled, "was to make the loan more acceptable in Europe."[75] In August 1871 the Treasury opened an office on Lombard Street to arrange for interest on the new 5-percent bonds to be paid in this manner. "The feeling in the City," *The Economist* reported, "is entirely favourable to the success of the experiment."[76]

Second, with the consortium of banks commissioned to place the loan in disarray, Boutwell imparted exclusive authority to Philadelphia financier Jay Cooke

73. See, for example, Belmont to N. M. Rothschild & Sons, 14 March 1870, T58/52, RA. "No provision has been made for the payment of the coupons in Europe," stated *The Economist*, and this "will militate against the success of the loan." *The Economist*, 11 March 1871, 311.

74. For this view, see Murray, "Shall a Great Nation Go Abroad to Pay Its Interest?", *New York Daily Times*, 7 March (TIF, p.v.59), New York Public Library; Belmont to N. M. Rothschild & Sons, 9 January 1872, T58/115, RA. See also Boutwell, *Reminiscences of Sixty Years in Public Affairs*, 2:141.

75. Boutwell, *Reminiscences of Sixty Years in Public Affairs*, 2:141–42.

76. *The Economist*, 19 August 1871, 999. By 1900, 77 percent of all interest payments on U.S. bonds were being paid by Treasurer's check. See Boutwell, *Reminiscences of Sixty Years in Public Affairs*, 2:141–42.

to broker the loan.[77] The most prominent banker in the United States, Cooke had been the financial hero of the Civil War when he succeeded in placing loan after loan even in the darkest hours of the conflict. The appointment of an agent with exclusive authority was far more typical of nineteenth-century government loans and avoided the inevitable wrangling and competing that had accompanied the previous joint appointment. Furthermore, Cooke's bank had recently opened a London branch, with former Secretary of the Treasury Hugh McCulloch as its resident partner. Cooke's promotion infuriated Morton and Rose, who already felt snubbed by the Treasury, and led them to withdraw their names from the banking consortium.[78] Unfazed by the third defection in the loan's short life, Cooke organized a large European syndicate under his command (which, ironically, included the former Confederate bankers in Paris, Erlanger & Co.) to sell the new 5-percent bonds. Within a matter of days, Cooke and his associates placed $75 million of the loan in Europe, primarily in Britain.[79] On 19 August 1871, *The Economist* declared that the loan "has been successful" and that the United States represented "the leading foreign state which borrows in our markets."[80] In all, Boutwell later estimated that $134 million out of the $200 million loan was sold abroad, principally in Britain.[81]

The success of the first funded loan in Europe had implications greater than merely refinancing $200 million of the public debt at a lower rate of interest. For the first time in the history of the United States, an American bank had placed a U.S. government loan in Europe. Not only had an American firm successfully entered into the territory of the world's leading banks, but it had done so with what was, at that point, the largest foreign loan in American history. Grant expressed his pleasure to a partner in Jay Cooke & Co. that the loan "was established without the aid or co-operation of certain firms who have heretofore assumed that nothing could be done without them" and "that the prestige of success was attached to American agents rather than to the Barings and Rothschilds."[82] Morton likewise acknowledged Cooke's success and admitted that it "will put Jay Cooke & Co. head and shoulders above any American house in Europe, and make them the peers of the proudest European houses."[83] The development of American finance and investment banking that began during

77. Boutwell, *Reminiscences of Sixty Years in Public Affairs*, 2:183–202; Oberholtzer, *Jay Cooke*, 2:275–79.

78. Robert McElroy, *Levi Parsons Morton: Banker, Diplomat, and Statesman* (New York, 1930), 52.

79. *Bankers' Magazine* 32 (January 1872): 5–6; Larson, *Jay Cooke*, 317–27; D. C. M. Platt, *Foreign Finance in Continental Europe and the United States, 1815–1870* (London, 1984), 154. The U.S. Treasury sent agents William Richardson and John Bigelow to Europe with the new bonds safely held in a state-of-the-art "iron safe, manufactured expressly for the occasion." See *The Economist*, 1 July 1871, 784.

80. *The Economist*, 19 August 1871, 999.

81. Boutwell, *Reminiscences of Sixty Years in Public Affairs*, 2:187.

82. Quoted in Oberholtzer, *Jay Cooke*, 2:283.

83. McElroy, *Levi Parsons Morton*, 53. See also *The Economist*, 23 December 1871, 1566.

the Civil War years appeared to finally bring Wall Street to par with the City of London.

The financial independence of the United States, however, should not be exaggerated. Though it was an American bank that orchestrated the placement of the funded loan, it was British gold that ultimately led to its success. Moreover, the prominence of Jay Cooke & Co. would prove ephemeral, as the bank collapsed less than two years later during the Panic of 1873. Nonetheless, by late 1871, American finances in general and Jay Cooke & Co. specifically enjoyed an unprecedented standing in Britain. The U.S. Navy ended its historic relationship with Baring Brothers and appointed Cooke, McCulloch & Co. to become its overseas agent. "It may be said that with the exception of England," the ultraconservative *Bankers' Magazine* opined, "no nation stands higher in respect of public credit than the United States."[84]

Such demonstrations and acknowledgements of American financial autonomy led the traditional London banking powers to fear that they might be cornered out of the market for brokering U.S. loans altogether. Thus, the Rothschilds decided to team up with Cooke in January 1872 to form a new syndicate to broker the remaining $500 million 5-percent bonds and $300 million 4.5-percents authorized by the Funded Act of 1870.[85] The two banks soon sent their proposal to Boutwell and began preparations for the issuance of the second funded loan in Europe in less than a year.

Ambitious plans for marketing $800 million in low-interest bonds in Europe had to be put on hold when the cantankerous *Alabama* issue threatened to divide Britain and the United States yet again in January 1872. At issue this time was the last chapter of the United States' case to be presented before the arbitrators in Geneva. Written by Assistant Secretary of State J. C. Bancroft Davis, the U.S. case included claims for the indirect/national damages inflicted upon the United States by the *Alabama* and other British-built Confederate cruisers. These indirect claims, first articulated by Sumner in his Senate speech in 1869, included damages to the American merchant marine from increased insurance costs and transference to foreign flags, the cost of pursuing Confederate vessels, and the alleged prolongation of the war. "The Tribunal will see," the case read, "that, after the battle of Gettysburg, the offensive operations of the insurgents were conducted only at sea, through the cruisers; and observing that the war was prolonged for that purpose, will be able to determine whether Great Britain ought not, in equity, to reimburse the United States the expenses thereby entailed upon them."[86]

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84. *Bankers' Magazine* 31 (September 1871): 789–91.

85. Belmont to N. M. Rothschild & Sons, 9 and 19 January 1871, T58/115, RA; Oberholtzer, *Jay Cooke*, 2:288; Larson, *Jay Cooke*, 360. It is often suggested that Cooke's bank would have survived the Panic of 1873 had this proposal been accepted by the Treasury. See Oberholtzer, *Jay Cooke*, 2:288; Larson, *Jay Cooke*, 360.

86. United States, *The Case of the United States to be Laid before the Tribunal of Arbitration* (London, 1872), 479.

British statesmen were enraged upon reading American demands for compensation for the indirect damages of the *Alabama*. Granville estimated that if the Geneva tribunal ruled in favor of the United States, the costs might amount to $4.5 billion.[87] "We must be insane," Gladstone declared in the Commons in February 1872, "to accede to demands which no nation with a spark of honour or spirit left could submit to even at the point of death."[88] But it was not only the potential cost of the indirect claims that angered British leaders, who argued that U.S. representatives had tacitly agreed during the Treaty of Washington deliberations not to put forward the indirect claims. Though the treaty did not explicitly forbid claims for indirect damages, British commissioners had consistently and outspokenly opposed their inclusion, a position that the Americans appeared to accept through their silent acquiescence. Indeed, it has been suggested by more than one historian that Fish and other American statesmen similarly came away from the Washington negotiations with the understanding that Britain would not accept indirect claims in the Geneva arbitration. Faced with the powerful opposition of Sumner, however, the administration had allowed the misperception to prevail in the Senate in order to secure congressional approval of the Treaty of Washington.[89] What began as a ploy to save the treaty soon became its bane. With British leaders demanding the withdrawal of the indirect claims, the Grant administration, politically constrained and never eager to bow to a British demand, dug in its heels. Thus, by January 1872, the two nations were once again in diplomatic deadlock about how to resolve the *Alabama* dispute.

Predictably, the indirect claims crisis jolted financial markets on both sides of the Atlantic. Similar to the panic that followed Sumner's speech in 1869, U.S. securities, particularly railroad stock, plummeted on the London Stock Exchange as investors feared the escalation of the dispute. "The sensitive imagination of some persons on the Stock Exchange," *The Economist* reported, "has assumed that the probable failure of the Alabama arbitration will probably lead to war between this country and America."[90] The financial situation, however, was not without its advantages. Boutwell ordered the $12 million U.S. account at the Bank of England to be expended on retiring depressed five-twenties on the London market.[91] Similarly, in a textbook stock operation, Morton, Rose & Co. used inside information that the dispute would not soon be resolved to sell short during the panic.[92]

Apart from the short-term profits of such speculations, however, it was clear to American statesmen and financiers that the unresolved state of the *Alabama*

87. Nevins, *Hamilton Fish*, 524.

88. Quoted in Duberman, *Charles Francis Adams*, 348.

89. Cook, *The* Alabama *Claims*, 212–14; Nevins, *Hamilton Fish*, 486.

90. *The Economist*, 10 February 1872, 161. See also N. M. Rothschild & Sons to Belmont, 30 January 1872, RA; Rose to Levi Morton, 27 January 1872, Papers of Levi Parsons Morton, New York Public Library, New York, NY.

91. Boutwell, *Reminiscences of Sixty Years in Public Affairs*, 2:202.

92. Rose to Morton, 27 January 1872, Morton Papers.

issue was not in the nation's economic interests. Once again, the seemingly endless diplomatic dispute blocked foreign investment and obstructed international trade. After successfully selling short, Rose became more cautious about conducting transatlantic business and investing in American securities. "We . . . must take in sail immediately and keep under double reefed canvas till the storm blows over," the Canadian banker informed partner Morton; "we must be very watchful as to prolonged commitments in the way of credits."[93] More significantly, the indirect claims interfered with the Treasury's plans to place a second funded loan in Europe. The Rothschilds, who planned to issue the new loan, argued that "[T]he uncertainty about the relations between the two countries must throw back all [of the Americans'] financial operations in respect to the reduction of the interest on their Debt and to the loans they are desirous of introducing."[94]

Given the financial consequences of the crisis, it is not surprising that Rose and Morton were once again in the middle of attempts to find a compromise to the dispute. Acting as conduits between the two governments, Rose and Morton cabled potential compromises to each other before floating their ideas to Fish in Washington and Granville in London.[95] Unlike their involvement during the creation of the joint commission in January 1871, however, the bankers were not neutral, third-party arbitrators. Both believed that the United States had misinterpreted the Treaty of Washington, which, they argued, did not permit the inclusion of indirect claims in the U.S. case. As Morton bluntly informed Fish, "[W]e are in the wrong in the interpretation we put upon the Treaty."[96]

The depressed state of American securities in Britain, particularly the railroad shares that Morton, Rose & Co. were attempting to market, no doubt contributed to Morton's reading of the treaty. "This misunderstanding," the Wall Street banker contended, "is costing this Country almost daily more than any amount we could possibly expect to receive, even if England would agree to refer the question of consequential damages."[97] However financially sensible Morton's view was, Fish refused to let Britain dictate how the United States interpreted the treaty and how it chose to present its case. "I hope that they do not expect on the other side to tell us how we must present our side of the 'case,'" the Secretary of State replied to Morton; "they cannot be litigant—

93. Rose to Morton, 3 February 1872, Morton Papers.

94. N. M. Rothschild & Sons to Belmont, 13 February 1872, RA.

95. For example, see Morton to Fish, 4 May 1872, Morton Papers; Rose to Morton (wired to Fish), 27 April 72, Fish Papers; Fish to Morton, 14 February and 30 March 1872, Morton Papers; Rose to Morton, 3 February and 11 May 1872, Morton Papers. In one instance, Morton proposed to abandon the Geneva arbitration and instead have Britain pay the U.S. a lump sum of $12 to $15 million. Fish declined, claiming that only UK£10 million would suffice. See Fish to Morton, 18 February 1872, Morton Papers; Fish diary, 2 February 1872, Fish Papers; Cook, *The* Alabama *Claims*, 219.

96. Morton to Fish, 28 February 1872, Fish Papers.

97. Ibid.

counsel for their opponent—and judge all at once."[98] With the normally conciliatory Fish reluctant to yield and Granville threatening British withdrawal from the Geneva arbitration in April 1872, the *Alabama* dispute once again threatened Anglo-American peace.

Fortunately, British statesmen put a compromise on the table before negotiations were formally broken off. In May, the Gladstone cabinet drafted a supplemental article to the treaty that bound both nations never to seek indirect damages for violations of neutrality in the future in exchange for U.S. withdrawal of the indirect claims at Geneva. As the traditionally neutral nation, such an agreement was clearly in the United States' long-term interests. The supplemental article also provided British leaders with the assurance they required that they would not be held liable for the indirect damages of the *Alabama*. The genesis of this compromise is unclear, though it is likely that financiers were once again behind the diplomatic scenes, as Lionel de Rothschild suggested the plan to Granville and Gladstone.[99]

The one problem with this scheme was that it required congressional approval before it could be formally introduced into the treaty. Aware, as always, of the radical contingent in Congress, the Grant administration was not eager to place an amendment to the treaty before the Senate. Incorporating the supplemental article into the treaty, however, appeared to be the administration's last chance to resolve the *Alabama* dispute. In Westminster, Lord Russell called upon the House of Lords to demand British withdrawal from the Geneva arbitration that was scheduled for 15 June. Once again, Boutwell led the effort within the Grant cabinet to avoid the diplomatic and financial fallout of an escalation of the *Alabama* dispute. In a confidential note to Fish, Boutwell advocated withdrawal of the indirect claims in exchange for the agreement "that a neutral nation is not legally liable to a belligerent for consequential damages."[100] Similarly, the Secretary of the Treasury privately pressed Grant to yield on the indirect claims after a cabinet meeting.[101] There can be little doubt that the Treasury's refunding operation in Europe was the motive for Boutwell's actions. The financial lobby was also at work. Morton used "every influence to induce the Government to accept the English modification," while Cooke lobbied his political allies Carl Schurz and Vice-President Schuyler Colfax to do the same.[102]

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98. Fish to Morton, 18 February 1872, Morton Papers.

99. Belmont had floated this idea to Rothschild, who agreed to sound the British cabinet out on it. See N. M. Rothschild & Sons to Belmont, 14 March and 27 May 1872, RA. Adrian Cook contends that Attorney-General George Williams came up with the idea during a cabinet meeting in April 1872. See Cook, *The* Alabama *Claims*, 223.

100. Boutwell to Fish, 9 May 1872, Fish Papers.

101. Boutwell, *Reminiscences of Sixty Years in Public Affairs*, 2:200–201.

102. Rose to Morton, 11 May 1870, Morton Papers; Cook, *The* Alabama *Claims*, 242. Fish also encouraged Morton to garner support for the supplemental article. See Fish diary, 27 April 1872, Fish Papers.

The Grant administration was certainly in a position to be swayed by pressure from the financial community. Fish had never been an advocate of the indirect claims and Grant desired a settlement to the *Alabama* dispute before his re-election campaign got underway. The administration's interest in the supplemental article no doubt increased when Grant's longtime associate Horace Porter, who corresponded with Morton on the *Alabama* issue, reported that the Senate would likely ratify the alterations to the treaty.[103] Pressure from financial interests paid off when the administration opted to put the issue before the Senate on 26 May. After inserting some minor changes to the language of the British proposal, the Senate resoundingly extended their approval to the supplemental article by a vote of 43 to 8. As a Philadelphia banker wrote to Morton the next day, "[I]f it had not been for the efforts of Sir John Rose and yourself I feel assured that the Treaty would have proved a failure."[104]

Such praise proved premature, however, when the Gladstone ministry rejected the amended supplemental article, despite a plea from Queen Victoria to do otherwise. In the eyes of British cabinet members, the Senate's alterations to the treaty were not the innocuous word changes that the Americans claimed. British statesmen argued that the amended supplemental article broadened the treaty to shield the United States from anticipated Canadian compensation claims for Fenian raids launched from south of the border.[105] Unless the United States accepted the supplemental article as written in Britain, the Geneva arbitration appeared to be dead. Having already "backed down" once, Belmont informed Lionel de Rothschild, the Senate would not consider the supplemental article a second time.[106]

Backing down a second time was not necessary, as the Grant administration had one card left to play. Prior to the supplemental article episode, Boutwell had convinced Fish to give Charles Francis Adams, the head of the American legal team at the Geneva arbitration, authority to make an informal pledge to British representatives that he would not seek indirect damages. As Adams had already pronounced his opposition to the indirect claims to prominent Britons, it was presumed that the British legal team would treat this unofficial offer seriously. Working through back channels would also save the United States from the embarrassment of having to revise its case under British pressure. After meeting with Boutwell in a New York hotel in April 1872, Adams recorded in his diary "that the Administration has become alarmed at the prospect of losing the Treaty, and is ready to retreat but do not know how to strike out a way." Boutwell and Fish, Adams accurately recognized, planned to make him "the mule to carry so heavy a burden on their account."[107] Adams did not have to

103. Horace Porter to Morton, 6 May 1872, Morton Papers.

104. Childs to Morton, 27 May 1872, Morton Papers.

105. For more, see Cook, *The* Alabama *Claims*, 231–2; Nevins, *Hamilton Fish*, 545.

106. Belmont to N. M. Rothschild & Sons, 31 May 1872, T58/128, RA.

107. Charles Francis Adams, diary, 22 April 1872, microfilm roll 84, Massachusetts Historical Society, Boston, MA. See also Duberman, *Charles Francis Adams*, 360; Boutwell, *Reminiscences of Sixty Years in Public Affairs*, 2:200–202.

act as the Grant administration's "mule" when he reached London in early May as it appeared that the supplemental article that the Senate was then considering would settle the issue. But after the British rejection of the Senate's alterations to the treaty, Adams came to the "conclusion that I must cut this now if I can."[108]

In a series of dramatic last-minute diplomatic maneuvers, Adams saved the Geneva arbitration in June 1872. The veteran diplomat persuaded the head of British counsel Alexander Cockburn not to call for a postponement in the arbitration (which, with elections in both nations pending, would likely have led to the reopening of the *Alabama* controversy). In exchange, Adams arranged for the Geneva arbitrators to issue a statement that precluded the indirect claims from consideration during the tribunal. "These claims do not constitute," the statement asserted, "good foundation for an award of compensation or computation of damages between nations."[109] Leaders in London and Washington, relieved to have the situation informally but adequately solved, quickly endorsed the arbitrators' decision to disregard the indirect claims. The *Alabama* dispute was settled by the end of the summer, when the Geneva arbitrators ruled that Britain was liable for the direct damages inflicted upon American vessels by the *Alabama* and the *Florida* and partially liable for those inflicted by the *Shenandoah*. British compensation was set at $15.5 million—ironically, the amount of the Confederate Erlanger loan of 1863 that was largely subscribed to by British investors—and, appropriately, Morton, Rose & Co. and Jay Cooke & Co. jointly handled the transfer of funds.

Though the shrewd diplomacy of Adams ultimately ended the indirect claims crisis, the role of the financial lobby in resolving the dispute should not be understated. It is significant that it was Boutwell, with Fish's consent, who empowered Adams to informally resolve the dispute. As in the run-up to the Treaty of Washington, the Secretary of the Treasury sought to place low-interest bonds on the London money market and labored behind the scenes to make this possible. Indeed, had Boutwell not persuaded the administration to grant Adams the authority to settle the controversy by informally withdrawing the indirect claims, it is probable that Britain would have withdrawn from the Geneva arbitration, thereby reopening the *Alabama* dispute and escalating Anglo-American tensions. Moreover, private financiers in London and New York had an obvious interest in stabilizing Anglo-American relations and worked unremittingly to that end. The constant pressure applied by the Treasury and investment banks clearly left its mark on Fish and Grant. "The Commercial and Moneyed interests," Fish would later recall, "made more embarrassments during the whole discussion [than did] the threatened withdrawal of G.B. from the arbitration."[110] Nor were the efforts of financiers unno-

108. Adams diary, 15 June 1872.
109. Quoted in Nevins, *Hamilton Fish*, 550.
110. Fish to Boutwell, 10 February 1880, Fish Papers. This citation was brought to my attention by Cook, *The* Alabama *Claims*, 241.

ticed at the time. Rose was promoted to Baronet for his role in facilitating a resolution to the *Alabama* dispute.[111] "While the Ministers are to be praised for their success," the London *Times* maintained after the resolution of the indirect claims matter, "the public ought to recognize also the great services done in this long and vexatious negotiation by two gentlemen not directly connected with either government . . . Sir John Rose, of London, and Mr. L. P. Morton, of New York."[112]

Similar to the joint commission in 1871, the settlement in Geneva opened the door to the London Stock Exchange for low-interest U.S. bonds. And, as before, Boutwell opted to offer the agency to several leading houses in London. In January 1873, two "supersyndicates"—the Rothschilds and Cooke, on the one hand, and Barings, Morton, and Morgan, on the other—submitted competing proposals to the Treasury to issue $300 million in 5-percent bonds. Desiring to satisfy political allies Cooke and Morton, who were both active in the Republican party, and coveting the backing of both the Rothschilds and Barings, Grant proposed "that the two unite."[113] The two banking consortia reluctantly agreed and began accepting subscriptions to the loan in February 1873.

As with the first funded loan, early sales of the 5-percent bonds sagged, a fact Cooke attributed to the "miserable jealousies" of the Rothschilds and Barings.[114] Though the difficulties brought on by firms competing for profits hindered the operation, the slow sales of the second funded loan were more a result of the gathering financial storm than of old jealousies. Indeed, the Panic of 1873—the financial thunderbolt that would destroy Jay Cooke & Co. in September and initiate the longest economic depression in American history—first struck in Vienna in May. Witness to the most cataclysmic financial crash of the latter half of the nineteenth century, the year 1873 was not a good one for the Treasury to place the largest issuance abroad in its history. Sales of the second funded bonds continued to sag after the panic and the loan was not fully absorbed for three years.[115]

The Treaty of Washington and the peaceful resolution of the *Alabama* claims opened a new chapter in the history of Anglo-American relations. The irritants that had caused relations between the nations to fester in the preceding decades—the status of Canada, Civil War issues, even fishery disputes—had all been resolved by the summer of 1872. Just as important as the removal of these

111. *New York Evening Post*, 14 September 1872.

112. Quoted in McElroy, *Levi Parsons Morton*, 68.

113. Fish diary, 21 January 1873, Fish Papers; Belmont to N. M. Rothschild & Sons, 23 January 1873, T58/134, RA.

114. Quoted in Oberholtzer, *Jay Cooke*, 2:372.

115. For more on the 1873 funded loan, see Larson, *Jay Cooke*, 395; Platt, *Foreign Finance in Continental Europe and the United States*, 154; Jean Strouse, *Morgan: American Financier* (London, 1999), 149–50.

cankers was the manner in which it had been done. Peaceful negotiations, both formal and informal, dominated discussions concerning the *Alabama* dispute. As Fish opined, "I trust it will not be considered vain to give expression to the belief that the treaty [of Washington] inaugurates a new era in the relations of the two governments, and possibly even beyond that in the mode of settlement of grave questions between great Powers."[116] Scholars have traditionally concurred with Fish's interpretation that the Treaty of Washington and the Geneva arbitration were watersheds both in Anglo-American relations and in the settlement of international controversies. Indeed, it is difficult to dispute Roy Jenkins' recent claim that "[T]he settlement not only was the greatest nineteenth-century triumph of rational internationalism over shortsighted jingoism, but also marked the breakpoint between the previous hundred years of Anglo-American strain and the subsequent century . . . of two world wars fought in alliance."[117]

It would be a mistake, however, to attribute the beginning of the Anglo-American rapprochement to the clairvoyance of statesmen in Washington and London. As we have seen, leaders in both countries viewed the *Alabama* issue through a lens specific to their short-term national interests. In Britain, a settlement was desired in order to erase the precedent of loose neutrality laws and to prevent the construction of future *Alabama*s in Yankee shipyards during a European war. In order to obtain this objective, British leaders were willing to take the unprecedented step of compensating the United States for the depredations of the *Alabama*. In the United States, the Grant administration viewed the *Alabama* claims in relation to its desire to fund the national debt through a foreign loan. The Treasury's desire to market a low-interest loan on the London Stock Exchange was a powerful incentive for settling the *Alabama* dispute. In order to achieve this financial goal, the Grant administration was willing to back away from the extreme demands articulated by Sumner in 1869 and to make the concessions necessary to ensure a diplomatic settlement with Britain. Prompted by the intermediary efforts of transatlantic financiers such as Rose, Morton, and Lionel de Rothschild, who had their own motives for preserving Anglo-American peace, the United States and Britain avoided a war that many in both nations feared inevitable. "Were it not for our [the United States'] debt," as Grant himself proclaimed, the *Alabama* dispute might have had a different ending, jeopardizing the future "special relationship" of the proceeding centuries.[118]

The long-term strategic and diplomatic significance of the Anglo-American settlements of the early 1870s has also obscured the financial implications of the resolution of the *Alabama* dispute. Diplomatic compromises enabled the U.S. Treasury to refund hundreds of millions of dollars of its debt at a lower

116. Quoted in Nevins, *Hamilton Fish*, 494.
117. Roy Jenkins, *Gladstone: A Biography* (New York, 1995), 356.
118. For Grant's quote, see Fish diary, 22 March 1870, Fish Papers.

rate of interest. Though the influx of European gold into the Treasury's vaults was not enough for Boutwell to enact a return to specie payments (especially when sales of the second funded loan stalled in 1873), future foreign loans, modeled after those of 1871 and 1873, bolstered U.S. gold supplies and, as economic historians have recently emphasized, paved the way to resumption in 1879.[119] Furthermore, the settlement of the *Alabama* claims helped restore European confidence in American securities.[120] As the Rothschilds acknowledged, the resolution of the *Alabama* dispute was significant "not only in promoting the friendly understanding of the two Governments, but also the prosperity and activity of the intercourse between the two countries."[121] The peak years of foreign investment in the United States waited in the near future.[122]

119. See Wilkins, *Foreign Investment*, 184; Jeremy Atack and Peter Passell, *A New Economic View of American History* (New York, 1994), 497–98.

120. For example, see *Bankers' Magazine* 31 (September 1871): 789–91.

121. N. M. Rothschild & Sons to Belmont, 7 June 1872, RA.

122. Foreign investment in the United States exploded from 1873 until the outbreak of war in Europe in 1914. Mira Wilkins estimates that foreign investment grew from $1.5 billion in 1875 to $7.1 billion in 1914. See Wilkins, *Foreign Investment*, 147.